Organization of American States

Presentation by the Secretary General on the Condition of the 2011 Budget

The presentation of the Chair of the Board of External Auditors this morning has highlighted with overwhelming clarity our Organization's delay in dealing with its most serious structural weakness: the budget deficit between its regular income and its recurring expenses that has persisted for years.

In the decade prior to my arrival in 2005, the Regular Fund budget decreased considerably after income from quotas was frozen. This resulted in a reduction in funds and, consequently, a deterioration of basic infrastructure and cuts in staff. There are two facts that aptly sum up the situation: for one thing, 48 positions financed by the Regular Fund have been cut since 2001; for another, had the Organization's budget kept pace with inflation, today it would be greater than $117 million.

The above reflects the rather peculiar cause of the deficit. It does not stem from increased spending, whether warranted or not (increase in mandates, recurring inefficiencies, etc), but from a steady decline in revenue simply because of the inexorable passage of time. As I once mentioned, the day will come when the next to the last staff member will hand the keys of the Organization over to the last staff member, along with his or her salary with its regular cost-of-living increase and the money to pay for the relevant services.

And as I have also noted in previous presentations to the CAAP and this Council, we face, as a result, a threefold challenge with conflicting dimensions: fixed income, adjustable expenditures, and ever-increasing demands on the institution.

This perverse triangle is adversely altering the structure of the Organization. It is becoming increasingly costly to fulfill the multiple mandates and carry out programmed activities. It is more and more difficult to meet targets and accomplish expected outcomes.

What solutions are being implemented?

First, the need has been reiterated time and again to do away with the now chronic gap between income and expenditure by incorporating the cost-of-living increase in the annually set quota assessments. This has been achieved only twice in the last 15 years: in 2007 and 2009 when the Regular Fund quotas were increased by three percent, which was no more than a weak palliative for the problem.

In second place, we redoubled efforts to increase income from specific funds. While this strategy has yielded positive results in terms of both the level of income and the quality of its administration, it is not easy to cover expenses which patently pertain to the regular OAS budget with funds intended for specific purposes: there is a clear limit on their use in this way.

The biggest contribution to reducing the deficit by this expedient has been the creation of the Indirect Cost Recovery Fund. The transparent and collegial management of these funds has made it possible at least to reduce the subsidy from the Regular Fund for projects, partially offsetting the unmatched use of funds from the Regular Fund to carry them out.

Third, positions were cut and proposals implemented for streamlining spending. As I said, since 2001, 48 Regular Fund positions have disappeared and substantial savings have been made by streamlining expenditures which have been the subject of regular reports submitted by the Secretariat and analyzed by the CAAP.

However, the effectiveness of these proposals notwithstanding, the truth is that the efforts to solve the problem have not succeeded. Moreover, as approval has been given year after year to use quotas in arrears and the reserve subfund to supplement regular budget funding, the unavoidable decision to increase the quotas or reduce program spending has been repeatedly put off. And so we have come to the present state of affairs where alternative financing for the structural deficit no longer exists and we are forced to address the crux of the problem and deal with the three above-mentioned sides of the triangle: fixed income, indexed spending, and maintenance or expansion of mandates.

Organization of priorities and mandates

One argument that has long been advanced as the main cause of the recurring deficits is the imbalance between a growing multitude of priorities and an increasingly small budget to execute them. For instance, the Inter-American Dialogue Task Force that examined the state of the Organization said, and I quote,

“Unless governments are prepared to pay more to strengthen the financial base of the OAS, the only realistic course will be to substantially downsize the organization and curtail its mandates and authority. Members of the task force believe it would be a serious mistake to pursue that alternative.”

The argument also holds that lack of knowledge of the number of mandates and the attendant absence of priority order makes the funds for carrying them out scarcer and their management more inefficient.

In order to overcome this problem and align our priorities with the budget, more than two years ago an exercise was proposed for the identification, categorization, and prioritization of mandates with their resulting counterpart in budgetary terms.

The Committee on Administrative and Budgetary Affairs, with the wholehearted collaboration of the General Secretariat, has set up a working group headed by Canada which has gone to extraordinary lengths to examine the manifold mandates of the Organization and the activities of the General Secretariat and to attempt an exercise in prioritization with the aim of matching priorities to spending.

Although this group has not yet finished its work, we can anticipate the following conclusions:

There are more than 1,700 mandates in the Organization.

There is no activity within the Organization that is not supported by some form of mandate.

These mandates can be comfortably categorized among the activities defined by the strategic pillars.

The preliminary findings of the survey of member states on the prioritization of mandates yielded conflicting results: with very few exceptions, all of the activities arising from mandates are supported by the order of priorities suggested by at least one member country.

The above conclusions, though preliminary, show that immediate results cannot be achieved through the prioritization of mandates. Marginal situations aside, there is scarcely a single OAS activity that does not have the consent of at least one member country.

In other words, no budget adjustment could include a categorical diagnosis based on priorities. At best, a handful of activities should be cut that enjoy limited support from member countries and where the OAS has shown weaker operational capacity than sister organizations in their implementation. However, in all likelihood, given the wide-ranging priorities revealed by the study, even these instances could be open to discussion.

Fixed income

The second side of the triangle has to do with the problem of unindexed income and the possibility or not of establishing a form of semiautomatic adjustment of the Regular Fund quota.

Inquiries made at similar organizations show that there is apparently no such thing as an automatic or semiautomatic indexing mechanism for member country quotas. Budgets are voted on annually and every year the same discussion arises about the cost-of-living increase, which is indeed incorporated in all the cases studied.

The difference seems to be that in all our sister organizations the budget **is voted on**, not determined by consensus.

Aside from the already evident benefits of consensus in resolving crises in the Hemisphere and in building lasting political partnerships (as has been amply demonstrated by this Council and the General Assembly), it is worthwhile at least pondering if the same mechanisms are just as effective where discussion of the budget is concerned.

While it is true that consensus-based solutions help to consolidate uniformity in proposals and courses of action, it is also a fact that the existence of negotiable discrepancies on the issue of the budget could give the Organization more room for maneuver and even breathing space for decision-making, making it possible to have disagreement without that creating an insurmountable obstacle.

I might add, moreover, that there is nothing in the rules and regulations that prohibits a vote on the budget. Articles 55 of the Charter and 64 of the Rules of Procedure of the General Assembly provide that the budget may be voted on and that a vote in favor by two thirds of the member states is necessary for its approval.

In other words, in the event that the political bodies decide not to opt for automatic or semiautomatic indexation, there still exists the possibility of finding a regular quota-adjustment mechanism by means of a vote.

Cost-of-living indexed expenditures

The third side of the triangle to which I referred is one of the most hotly debated internal administration issues of recent years: the well-known Cost-of-Living Adjustment (COLA).

During the 1990s discussions on the cost-of-living wage adjustment led to varied and extreme situations. The inability of staff members, political bodies, and the Office of the Secretary General to see eye to eye created a conflict whose net result was to profoundly weaken the capacity of the Organization.

At present we are again faced with a deeply troubling scenario. The incessant erosion of the Organization caused by the imbalance between fixed income and indexed expenditure has reached its limit. We cannot stretch things any more for fear of triggering a crisis that would jeopardize the viability of the OAS itself.

Consideration must be given, therefore, to a joint effort. A “lesser evil” by which to build a long-term solution, a new compact that, once and for all, offers the Organization and the staff members that comprise it a well-deserved long-range horizon, while seeking to respect as much as possible their vested rights.

The framework of the adjustment

Before explaining my proposed solution I would like to issue a caveat.

Some argue that the Organization needs a structural adjustment, that a “virtue should be made out of need,” and that the reorganization should involve the construction of efficiencies through budget adjustment.

That view stems from the premise that the structural deficit is unnecessary, as if we in the Organization were spending member countries’ funds irresponsibly.

I should like to make it quite clear on this point that this view ignores the considerable advances made in the five years that have elapsed under my administration. The reorganization of the OAS is not just starting today. We began the reorganization five years ago and, as anyone can see, the Organization is substantially different now from how it was then. And in these past five years every effort has been made, always successfully, to make every penny received by the General Secretariat count. If the reorganization has not gone far enough that is only due to the decline in real income during that time and not, as has been claimed, to the misuse of that income or higher spending.

But I am not going to pause now to list achievements. Suffice it for me to cite the successive reports of the Board of External Auditors, including the one presented today; the external audits of highly reputable consultants such as Ernst & Young; the reports of the Inspector General of the Organization; and the Inter-American Dialogue Task Force, which examined the state of the Organization; and also to mention how the number of labor cases before the Administrative

Tribunal has declined dramatically over this five-year period (only three judgments and four decisions in all that time). Each of these examples is indicative of the reorganization process that began in 2005, whose implications were fittingly summed up in an informal remark by an official from an observer country, who noted that compared to other organizations “money goes a long way in the OAS.” Of course, it is always possible to “trim fat” and we shall do that on this occasion too. However, it should be clear that it is not that but the now utter impossibility of dealing with the structural deficit described that is main reason for the adjustment.

The proposal

This is the context in which I come before this Council today to present a possible scenario for solving our structural deficit and preparing the 2011 budget.

The relevant draft resolution should, in my opinion, address two fundamental points: (a) the overall budget for 2011, the so-called “budget ceiling”, which at present is $90.1 million; and (b) the total amount of quotas, which this year comes to $78 million. The special session of the General Assembly, to be held in September 30, 2010, should, for its part, establish the regular adjustment mechanism for total quotas to close the gap between income and expenditure.

Ladies and gentlemen:

The shortfall that we face in 2011 is $7.2 million, without taking into account a COLA of 3 percent, equivalent to $2.7 million. With the COLA the gap comes to $9.9 million.

The inability to finance the deficit from other sources forces us to appeal for a joint effort. We hope that every sector of the Organization can help to overcome the difficult time that we are experiencing.

I am asking the member countries to raise their quotas by 3 percent next year, which would increase the income from quotas by $2.4 million.

As for our staff, I would ask them to put up with non-payment of the cost-of-living adjustment (COLA) for 2011. To that end I will ask the General Assembly to decide on non-payment of the cost-of-living wage adjustment for just one time and to guarantee that the OAS staff will recover that vested right in 2012.

The two measures, however, are not enough to offset the $9.9 million deficit that we face. Even assuming a favorable resolution in both cases, we would still have to cover a shortfall of $4.8 million.

This deficit could only be met by a further reduction in payroll and non-payroll costs

In order to accomplish this outcome I propose a reduction in expenditure on items 2 to 9 (non-payroll costs) of $1.6 million and a reduction in positions of $3.2 million.

As regards the non-payroll adjustment, I propose a cut in the expenditure of the Inter-American Defense Board of around $400,000, which would keep the college operational and enable a radical reorganization of the source of financing of the IADB.

I also propose that management of the scholarships system be made more efficient on the basis of two premises: that the number of scholarships per country and their quality will not be reduced and that the commitment is renewed to increase the existing fund through a vigorous search for external financing.

The remaining savings needed to cover the $1.6 million in non-payroll costs will be achieved through increased austerity measures and other policies to cover the remaining shortfall, such as the replacement of on-site meetings with videoconferences, reduction of performance contracts, outsourcing of a number of functions, etc.

The reduction in payroll costs will, in turn, be accomplished mainly through the removal of positions of trust, the freezing of vacancies created by the retirement of staff members, and the voluntary retirement by tenured employees of the Organization who are at an age to do so. Altogether, application of these decisions would cover the remaining $3.2 million needed to balance the budget.

The proposals that I am announcing, however, would be meaningless if we fail to consider a broader scenario than that of the forced cuts for 2011. All the traumatic efforts of the adjustment would be for naught unless a mechanism is introduced to ensure a stable and lasting balance in the future between income and expenditure.

I confirm my readiness to adjust the budget given the obvious inability to maintain the current financing scenario. However, by the same token, I wish it to be clearly understood that I am not prepared to repeat this traumatic exercise year after year as it would inevitably make the Organization ungovernable and lead ultimately to its demise. Numbers aside, there is not an organization anywhere whose staff can survive and be productive with the sword of Damocles of dismissal or a pay cut perpetually hanging over them. Belt tightening and reorganization are negotiable scenarios; starting down the slope of successive cutbacks and the loss of confidence that causes is not.

Accordingly, it seems to me essential that the proposal I have just made, which involves efforts and sacrifices both from the member states and from the OAS staff, be strengthened by the willingness of member states to give positive consideration, whenever the annual budget of our Organization is up for discussion and approval, to amending their contributions in an amount equivalent to the readjustment in expenditure as a result of the COLA. That is the only way to attain the budgetary stability for which the member states and this General Secretariat yearn and to ensure the stability to which our staff are rightfully entitled.